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# Telekom Malaysia

Powered by Data

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TM's 1QFY24 results tracked expectations. TM Global's revenue traction remains steady on the back of robust demand for data and bandwidth capacity. Despite topline growth, earnings was slightly lower (-3% YoY) due to opex drag. We maintain our earnings forecasts, but raise our TP by 4% to RM7.53 (from RM7.22) as we roll forward our valuation base year. Maintain **OUTPERFORM**.

**In line with expectations.** Its 1QFY24 core net profit of RM435m was within expectations – coming in at 25% and 27% of our full-year forecast and the consensus estimate, respectively.

**TM Global continues to outshine.** Its topline expansion of 2% YoY was mainly propelled by TM Global as its segmental revenue jumped by 12% YoY. This was mainly underpinned by a surge in bandwidth demand for: (i) managed wavelength, (ii) hot standby bandwidth allocation (HSBA), and (iii) indefeasible right of use (IRU).

The above more than offset lower revenues at: (i) TM One: dragged by project deferrals and price adjustments for renewed contracts, and (ii) Unifi: due to lower usage of voice and mobile services.

However, EBITDA contracted by 8% YoY due to higher costs attributed to TM Global outpayments, Unifi roaming costs, content, and staff remuneration. The combination of higher opex and taxes led to bottomline contraction (-3% YoY) despite the absence of accelerated depreciation.

**Unifi under pressure.** Unifi's ARPU inched down QoQ to RM130 (4QFY23: RM131, 1QFY23: RM132) on the back of competitive intensity. Sequential net adds also sustained its downtrend to 9k (4QFY23: 19k, 1QFY23: 85k) after having peaked at 208k back in 3QFY21.

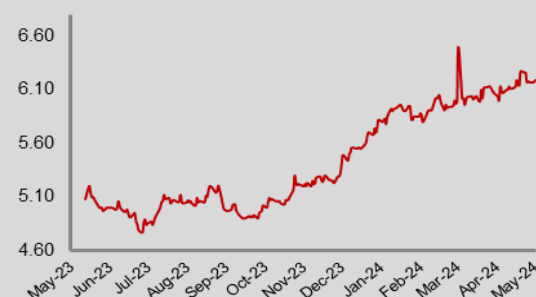
The key takeaways from TM's analysts briefing are as follows:

1. TM reiterated that the proliferation of data centers (DCs) in Malaysia is favorable for the group. Specifically, its data segment is experiencing a positive impact from these DCs. As a result, TM projects strong demand growth, and is evaluating potential investments in submarine cables for routes connecting Europe, Hong Kong, and the United States.
2. Meanwhile, TM believes that the upcoming completion of the SEA-ME-WE 6 submarine cable system will accommodate increased demand from new DCs in Malaysia. To recap, TM is part of a consortium for the 21,700 km Southeast Asia - Middle East - Western Europe 6 (SEA-ME-WE 6) submarine cable system. It has a capacity of 100 Tbps and connects France and Singapore, with 17 landing points in 15 countries.
3. TM has successfully set up managed wavelength services for the transmission of data between global DCs. Hence, this establishes Malaysia as a regional digital hub with the capability to support large volumes of data traffic.
4. As a continuation of its ongoing cost optimization program, TM had recently proposed a voluntary separation scheme (VSS) for its employees.

**OUTPERFORM** ↔

Price: **RM6.26**  
Target Price: **RM7.53** ↑

## Share Price Performance



KLCI	1,604.26
YTD KLCI chg	10.3%
YTD stock price chg	12.8%

## Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	T MK Equity
Market Cap (RM m)	24,024.0
Share Outstanding	3,837.7
52-week range (H)	6.59
52-week range (L)	4.77
3-mth avg. daily vol.	5,988,213
Free Float	37%
Beta	0.9

## Major Shareholders

Khazanah Nasional Bhd	19.7%
Employees Provident Fund Board	17.6%
Amanah Saham Nasional Bhd	13.3%

## Summary Earnings Table

FYE Dec (RM m)	2023A	2024F	2025F
<b>Revenue</b>	12,256	10,761	11,029
EBITDA	4,931	4,121	4,246
EBIT	2,135	2,184	2,151
PBT	1,809	2,011	2,040
<b>PATAMI</b>	<b>1,900</b>	<b>1,722</b>	<b>1,748</b>
<b>Core Net Profit (NP)</b>	<b>1,985</b>	<b>1,722</b>	<b>1,748</b>
Consensus (NP)	-	1599	1562
Earnings Revision	-	-	-
Core EPS (sen)	52.5	45.6	46.2
Core EPS Growth (%)	58.5	-13.2	1.5
DPS (sen)	25.0	23.5	27.5
BVPS (RM)	2.4	2.6	2.8
Core PER (x)	11.9	13.7	13.5
PBV (x)	2.6	2.4	2.2
Net Gearing (x)	0.2	0.2	0.1
Div. Yield (%)	4.0	3.8	4.4

28 February 2022

**Forecasts.** Maintained.

**Valuations.** Our TP is raised by 4% to RM7.53 (from RM7.22) based on 7.0x FY25F EV/EBITDA as we roll forward our valuation base year. This implies a 50% discount to peer TIMECOM's valuation of 13.5x (re-rated from 10.8x) to reflect higher regulatory risk for TM given its higher market share in retail broadband. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

**Investment case.** We like TM on account of: (i) it being leveraged towards secular data growth on the back of current trends such as digital transformation, proliferation of internet of things (IoT), cloud-based applications powered by generative AI, etc, (ii) it benefitting from JENDELA phase 2 projects via roll-out and monetization opportunities, and (iii) earnings accretion from potential development of new hyperscale data center, and (iv) higher demand for data transmission via its network of digital infrastructure that includes submarine cables and landings as well as fiber optics backhaul. Maintain **OUTPERFORM**.

**Risks to our call include:** (i) cost drag from Unifi Mobile due to lack of scale, (ii) pricing pressures at the retail segment arising from policy-led directives, and (iii) irrational competition in the retail fiber broadband space.

Results Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
Revenue	2,837.0	3,129.3	-9.3%	2,785.9	1.8%
<b>EBITDA</b>	<b>1,165.7</b>	<b>1,241.0</b>	-6.1%	<b>1,263.3</b>	-7.7%
Depreciation	(538.3)	(707.6)	-23.9%	(669.3)	-19.6%
Net Finance Costs	(47.9)	(52.3)	-8.4%	(58.7)	-18.4%
JV	2.3	3.2	-28.1%	2.8	-17.9%
EI	(9.7)	(90.6)	-89.3%	(117.1)	-91.7%
Pretax Profit	572.1	393.7	45.3%	421.0	35.9%
Taxation	(144.3)	46.3	>-100%	(89.6)	61.0%
Minority Interest	(3.0)	(6.5)	-53.8%	(1.3)	130.8%
<b>Reported Net Profit</b>	<b>424.8</b>	<b>433.5</b>	-2.0%	<b>330.1</b>	28.7%
<b>Core Net Profit</b>	<b>434.5</b>	<b>524.1</b>	-17.1%	<b>447.2</b>	-2.8%
Core EPS (sen)	11.4	13.7	-16.9%	11.7	-2.6%
DPS (sen)	0.0	15.5	nm	0.0	nm
EBITDA margin	41.1%	39.7%		45.3%	
PBT Margin	20.2%	12.6%		15.1%	
Effective tax rate	25.2%	-11.8%		21.3%	
Core Net margin	15.3%	16.7%		16.1%	

28 February 2022

Segmental Highlights					
	1Q	4Q	QoQ	1Q	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg
<b>Revenue by Customer Segments</b>					
Unifi	1,396.2	1,409.7	-1.0%	1,435.5	-2.7%
TM One	673.0	855.8	-21.4%	678.1	-0.8%
TM Global	742.8	775.6	-4.2%	662.4	12.1%
Shared Services/ Others	25.1	88.2	-71.6%	9.9	153.4%
<b>Total</b>	<b>2,837.1</b>	<b>3,129.3</b>	<b>-9.3%</b>	<b>2,785.9</b>	<b>1.8%</b>
<b>Revenue by Business Segment</b>					
Voice	520.1	533.2	-2.5%	568.1	-8.4%
Internet	1,158.1	1,163.1	-0.4%	1,140.5	1.5%
Data	827.0	865.7	-4.5%	766.4	7.9%
Others	<b>331.8</b>	567.3	-41.5%	310.9	6.7%

Source: Company, Kenanga Research

Operational Metrics					
	1Q	4Q	QoQ	1Q	YoY
Subscribers ('000)	FY24	FY23	Chg	FY23	Chg
Unifi Home	3,108	3,099	9	3,023	85
Other Fixed Broadband	27	32	(5)	57	(30)
<b>ARPU (RM)</b>					
Unifi	130	131	(1)	132	(2)

Source: Company, Kenanga Research

28 February 2022

### Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
<b>STOCKS UNDER COVERAGE</b>																	
AXIATA GROUP BHD	OP	2.77	3.00	8.3%	25,433.9	Y	12/2024	7.1	7.2	19.6%	1.7%	39.2	38.5	1.4	3.0%	10.0	3.6%
CELCOMDIGI BHD	OP	3.89	5.97	53.5%	45,635.6	Y	12/2024	17.2	18.8	6.4%	9.0%	22.6	20.7	2.7	11.4%	13.8	3.5%
MAXIS BHD	OP	3.66	5.30	44.8%	28,665.4	Y	12/2024	16.7	17.9	6.2%	7.2%	22.0	20.5	5.0	22.7%	20.0	5.5%
OCK GROUP BHD	OP	0.620	0.860	38.7%	658.5	Y	12/2024	4.8	5.2	21.4%	8.1%	12.8	11.8	1.0	7.7%	1.5	2.4%
TELEKOM MALAYSIA BHD	OP	6.26	7.22	15.3%	24,023.6	Y	12/2024	45.6	46.2	-13.2%	1.5%	13.7	13.5	2.4	18.0%	23.5	3.8%
<b>SECTOR AGGREGATE</b>					<b>124,416.9</b>					<b>0.9%</b>	<b>5.5%</b>	<b>21.6</b>	<b>20.5</b>	<b>2.5</b>	<b>12.6%</b>		<b>3.8%</b>

Source: Bloomberg, Kenanga Research

### Stock ESG Ratings:

	Criterion	Rating			
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★
	Community Investment	★	★	★	
	Workers Safety & Wellbeing	★	★	★	
	Corporate Governance	★	★	★	
	Anti-Corruption Policy	★	★	★	
	Emissions Management	★	★	★	
<b>SPECIFIC</b>	Cybersecurity & Data Privacy	★	★	★	
	Network Quality & Coverage	★	★	★	★
	Digitalisation & Innovation	★	★	★	
	Supply Chain Management	★	★	★	
	Talent Management	★	★	★	
Customer Satisfaction	★	★	★		
<b>OVERALL</b>		★	★	★	

- ☆ denotes half-star
- ★ -10% discount to TP
- ★★ -5% discount to TP
- ★★★ TP unchanged
- ★★★★ +5% premium to TP
- ★★★★★ +10% premium to TP

28 February 2022

**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

***\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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